

AUDITOR GENERAL'S REPORT FOR
THE YEAR ENDED 30 JUNE 2011

The Accounting Officer
Aganang Local Municipality
P.O Box 9090
Juno
0748

30 November 2011

Reference: 60051RFG10/11

Dear Sir

Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Aganang Local Municipality for the year ended 30 June 2011.

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa and section 121(3) of the Municipal Finance Management Act of South Africa (MFMA).
2. We have not yet received the other information that will be included in the annual report with the audited financial statements and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements and the reported performance against pre determined objectives. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section 121(3) of the MFMA you are required to include the audit report in the Municipality's annual report to be tabled.
4. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
5. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
 - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
 - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.
6. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.

Auditor-General Republic of South Africa
www.agisa.co.za

8 Your cooperation to ensure that all these requirements are met would be much appreciated

Kindly acknowledge receipt of this letter.

Yours sincerely

Signed



Lawrence Nevhutalu

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REPORT OF THE AUDITOR GENERAL TO THE LIMPOPO PROVINCIAL LEGISLATURE
AND THE COUNCIL ON AGANANG LOCAL MUNICIPALITY

Introduction

1. I have audited the accompanying financial statements of the Aganang municipality, which comprise the statement of financial position as at 30 June 2011, and the statement of financial performance, statement of changes in net assets and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, and the accounting officer's report as set out on pages XXX to XXX

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and General Notice 1111 of 2010 issued in Government Gazette 33872 of 15 December 2010. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my adverse audit opinion.

Basis for adverse opinion**Financial statements and general ledger**

7. Differences were noted between the financial statements and the general ledger. The municipality did not reconcile these differences between the financial statements and the underlying accounting records. The impact on the balances is reflected in the table below. I therefore could not determine the effect on the other account balances or classes of transactions contained in the financial statements.

Description	Amount per Financial Statements (R)	Amount per General Ledger (R)	Understatement/ (Overstatement) (R)
Rental of facilities and equipment	320 987	304 957	16 031
Government grants and subsidies received – operating	56 980 439	56 215 139	1 765 300
Government grants and subsidies received – capital	25 158 755	2 000 000	23 158 755
Other income	4 624 825	4 613 931	(10 894)
Employee related costs	27 685 748	37 249 722	(9 563 974)
Remuneration of councillors	6 738 894	5 955 199	783 695
Repairs and maintenance	1 604 869	3 932 844	(2 327 976)
Net surplus for the year	38 653 951	-	38 653 951
Cash and cash equivalents	14 690 429	52 927 758	(38 237 329)
Consumer debtors	8 707 945	8 837 269	(129 323)
Other receivables	558 751	252 929	305 823
VAT receivable	5 030 793	5 091 951	(61 158)
Property, plant & equipment : Additions	25 765 007	25 972 225	(207 218)
Accumulated surplus/(deficit)	89 403 781	58 169 291	31 234 490

Journals

8. The municipality could not provide sufficient appropriate audit evidence to support journal entries amounting to R1 550 224 that were processed in the accounting records during the year. There were no satisfactory audit procedures that I could perform to obtain reasonable assurance that all journals have been properly recorded. Consequently, I was unable to satisfy myself as to the validity, completeness and accuracy of the accounting records relating to journals.

Restatement of corresponding figures

9. Corresponding figures for various accounts have been restated as indicated in the table below in order to address prior year misstatements. No supporting documentation was available for the restatement. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the occurrence, completeness and accuracy for the corresponding figures. Furthermore, the municipality did not disclose the amount of correction for each line item affected as required by Standards of Generally Recognised Accounting Practice, GRAP 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Description	2011 Financial statements Balance (R)	2010 Financial statements Balance (R)	Reconciliation Amount (R)
Contractors debtors	5 889 475	12 761 308	(6 871 833)
Other receivables	581 876	3 387 763	(2 785 887)
Property plant and equipment	50 648 804	50 717 363	(68 559)
Intangible assets	297 280	-	(297 280)
Trade and other payables	7 927 103	8 109 923	(182 820)
Accumulated surplus	51 700 917	58 378 984	(6 678 067)
Government grants and subsidies received	45 848 930	49 303 637	(3 454 707)
Other income	506 000	606 583	(10 583)
Employee related costs	17 597 755	17 780 606	(182 851)
Bad debts	7 028 452	2 648	7 025 804
Depreciation	4 308 771	4 537 492	(228 721)
General expenses	24 694 225	26 096 385	(1 402 160)

Cash and cash equivalents

10. The bank overdraft balance of R1 418 064 as disclosed in note 2 to the financial statements, does not agree to the balance of R1 550 224 per the bank reconciliation. The entity did not reconcile the difference of R2 968 287 between the financial statements and the underlying accounting records. Consequently, the cash and cash equivalent balance is overstated/understated by R2 968 287. Furthermore, an omission of a reconciling item amounting to R194 561 was noted on the bank reconciliation. Consequently, I was unable to satisfy myself with the completeness and valuation. I was unable to determine the effect on the other account balances or classes of transactions contained in the financial statements.
11. A journal amounting to R1 819 364 was duplicated against the investment account. Consequently, cash and cash equivalents are overstated in the financial statements.

Inventories

12. There was no adequate system of control over inventory on which I could rely on for the purpose of my audit, and there were no satisfactory audit procedures that I could perform to obtain reasonable assurance that inventories has been properly recorded. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness, rights and obligations, existence and valuation of inventories of R513 043.

Value Added Tax Receivable

13. An amount of R4 884 038 relating to VAT refund was incorrectly recorded as sundry income instead of VAT receivable. Therefore VAT receivable and sundry income has been overstated by R4 884 038 in the financial statements.
14. The value added tax receivable balance of R5 030 793, as disclosed in note 26 to the financial statements, does not agree to the balance of R1 951 383 as per my VAT reconciliation. The municipality did not provide evidence for the difference amounting to R3 079 410 between the financial statements and the underlying VAT reconciliation. Consequently, VAT receivables is overstated by R3 079 410. I was unable to determine the

check on the other account balances or classes of transactions contained in the financial statements.

Property, plant and equipment

15. The municipality did not review the residual values and useful lives of community and other assets at each reporting date in accordance with the Standard of Generally Recognised Accounting Practice, GRAP 17, *Property, plant and equipment*. I was unable to confirm or verify by alternative means the value of community and other assets included in the financial statements at R11 492 246 and R10 862 890 respectively. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the valuation of community and other assets.

Trade and other payables

16. The trade creditors balance of R6 154 653 as disclosed note 7 to the financial statements, does not agree to the balance of R5 533 789 on the trade creditors listing. The municipality did not reconcile this difference of R609 864 between the financial statements and the underlying accounting records. Consequently, trade and payables is overstated by R609 864. I was unable to determine the effect on the other account balances or classes of transactions contained in the financial statements.
17. The retentions balance of R2 832 957 as disclosed in note 7 to the financial statements, does not agree to the balance of R2 999 253 on the retention listing. The municipality did not reconcile this difference of R166 296 between the financial statements and the underlying accounting records. I was unable to determine the effect of this difference on the other account balances or classes of transactions contained in the financial statements.
18. The municipality could not provide sufficient appropriate audit evidence to support the balances of other creditors and payments received in advance of R1 745 428 and R148 792 respectively as disclosed in note 7 to the financial statements. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that all other creditors and payments received in advance were properly recorded.

Furthermore there was no system of control over accruals on which I could rely for the purpose of my audit, and there were no satisfactory audit procedures that I could perform to obtain reasonable assurance that accruals has been properly recorded.

Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the completeness, valuation, obligation and completeness of trade and other payables of R12 361 198.

Provisions

19. The Standard of Generally Recognised Accounting Practice, GRAP 19, *Provisions, contingent liabilities and contingent assets* states that a provision is a liability with an uncertain timing or amount. The municipality has incorrectly disclosed retentions amounting to R2 832 957 as a provision in note 30 to the financial statements although the timing and amount of the liability is certain. Consequently, provisions is overstated and accruals is understated by R2 823 957.
20. Standard of Generally Recognised Accounting Practice, GRAP 19, *Provisions, contingent liabilities and contingent assets* requires a provision to be made for present obligation incurred as a consequence of constructive and legal obligation. The municipality has not made provision for bonuses payable to its employees in accordance with the requirements

of GRAP 19. Consequently, provision for bonuses and employee related costs is understated by an unquantifiable amount.

Provision for bad debts

21. I was unable to verify the correctness of the provision for bad debts, stated at R7 028 091 in note 3 to the financial statements. The municipality could not provide me with the assumptions and estimates used for calculating the provision for bad debts. Consequently, I was unable to verify the completeness, existence, obligation and valuation of the provision for bad debts.

Statement of changes in net assets

22. The municipality could not provide sufficient appropriate audit evidence to support adjustments amounting to R1 168 688 as disclosed in the statement of net assets. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that all adjustments to net assets are properly recorded. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the validity, accuracy and completeness of adjustments to net assets amounting to R1 168 688.

Commitments

23. The commitments balance of R5 462 219, as disclosed in note 20 to the financial statements, does not agree to the balance of R4 367 105 per the commitments listing. The municipality did not reconcile the difference of R1 095 114 between the financial statements and the underlying accounting records. Consequently, the commitments balance is overstated by R1 095 114.
24. The municipality has not included commitments of R8 664 270 in the notes to the financial statements. Consequently, commitments disclosed in note 20 to the financial statement is understated by R8 664 270.
25. Included in note 20 of the financial statements are accruals amounting to R677 845 which has been incorrectly disclosed as commitments. Consequently, accruals and expenditure have been understated and commitments have been overstated by R677 845.

Cash flow statement

26. Presentation of a cash flow statement, summarising the entity's operating, investing and financing activities, is required by the Standard of Generally Recognised Accounting Practice, GRAP 2, *Cash flow statements*. The following differences was noted as per my recalculations and the amounts disclosed on the cash flow statement for the current year and comparative:

30 June 2011

Details	Amounts as per AFS (R)	Recalculated amounts (R)	Variance (R)
Cash paid to suppliers and employees	(53 098 021)	(53 563 220)	465 199
Cash generated from / (utilized in) operations	33 710 813	34 036 857	(326 044)
Interest received	1 025 179	1 099 995	(74 816)
Net cash from operating activities	34 735 992	34 671 653	64 339
Purchase of property, plant and equipment	(27 807 525)	(2 7015 845)	791 680

Details	Amounts as per Accounts (R)	Amounts as per Financial Statements (R)	Variance (R)
Cash generated from / (utilized in) operations	12 023 203	18 877 805	(6 854 597)
Net cash from operating activities	12 850 848	19 705 445	(6 854 597)
Increase/(decrease) in cash and cash equivalents	(601 490)	(6 253 107)	5 651 617

The municipality's records did not permit the application of alternative procedures. Consequently I cannot determine the effect of the above differences on the financial statements.

Repairs and maintenance

27. Capital assets of R127 632 have been incorrectly expensed as repairs and maintenance. Consequently, property plant and equipment is understated and repairs and maintenance is overstated by R127 632.

Employee related costs

28. The employee related costs amounting to R27 685 748, as disclosed in note 14 to the financial statements, does not agree to the total of R25 199 645 as per the PAYDAY system. The municipality did not reconcile the difference of R2 486 103 between the financial statements and the underlying accounting records. Consequently, the employee related costs is overstated by R11 346 685. I was unable to determine the effect on the other account balances or classes of transactions contained in the financial statements.

Remuneration of councillors

29. The remuneration of councillors amounting to R6 738 894, as disclosed in note 15 to the financial statements, does not agree to the total of R6 903 825 as per the PAYDAY system. The municipality did not reconcile the difference of R165 128 between the financial statements and the underlying accounting records. Consequently, the remuneration of councillors is understated by R165 128. I was unable to determine the effect on the other account balances or classes of transactions contained in the financial statements.

Unauthorised expenditure

30. The municipality overspent on its payroll expenditure by R5 228 278 resulting in unauthorised expenditure. The municipality did not disclose this in the notes to the financial statements in accordance with 125(2)(d)(i) of the MFMA.

Accumulated surplus

31. The municipality has not processed journals amounting to R2 115 866 relating to receivables and unspent conditional grants. Consequently, accumulated surplus has been understated by R2 115 866, receivables is overstated by R176 500 and unspent conditional grants is overstated by R2 292 366.

Government subsidies and grants

32. The Municipal Infrastructure Grants amounting to R 22 933 950, as disclosed in note 11.4 to the financial statements, does not agree to the total of R 21 994 608 as per the MIG grant listing. The municipality did not reconcile this difference of R939 342 between the financial statements and the underlying accounting records. Consequently, the MIG grants are

overstated by P000 342. I was unable to determine the effect on the other account balances or classes of transactions contained in the financial statements.

33. The following differences was noted as per my recalculations and the amounts disclosed in note 19 of the financial statements relating to disclosures in terms of section 12b of the MFMA:

Description	Amount per S (R)	Amount per audit resume (R)	Difference (R)
Audit fees			
Amount paid current year		(827 239)	827 239
PAYE & UIF			
Current payroll deductions	4 147 981	4 601 308	(453 325)
Amount paid current year	(4 147 981)	(4 601 308)	453 325

The municipality's records did not permit the application of alternative procedures. Consequently I cannot determine the effect of the above differences on the financial statements.

Adverse Opinion

34. In my opinion, because of the significance of the matters described in the Basis for adverse opinion paragraphs, the financial statements do not present fairly the financial position of Aganang municipality as at 30 June 2011 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA.

Additional matters

35. I draw attention to the matter below. My opinion is not modified in respect of this matters:

Unaudited supplementary schedules

36. The supplementary information as set out on page xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

37. In accordance with the PAA and in terms of *General notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I include below my findings on the annual performance report as set out on pages XXX to XXX and material non-compliance with laws and regulations applicable to the municipality.

Predetermined objectives

Presentation of information

38. The reported performance against predetermined objectives was deficient in respect of the following criteria:

- Reasons for major variances between planned and actual reported targets were not provided in the report on predetermined objectives

39. The following audit findings relate to the above criteria:

- Explanations for major variances between the planned and the actual reported targets for all programmes were not provided, as required in terms of the relevant reporting guidance. In total 100% of the reported targets with major variances were not explained.

Usefulness of information

40. The reported performance information was deficient in respect of the following criteria:

- Consistency: The reported objectives, indicators and targets are not consistent with the approved integrated development plan.

41. The following audit findings relate to the above criteria:

- Reported performance against predetermined targets is not consistent with the approved integrated development plan
- Additional objectives, indicators and targets were reported on as opposed to the approved integrated development plan. These additional objectives, indicators and targets were not approved subsequent to the strategic planning process.

Compliance with laws and regulations

Strategic planning and performance management

42. The accounting officer of the municipality did not by 25 January assess the performance of the municipality during the first half of the financial year, taking into account the municipality's service delivery performance during the first half of the financial year and the service delivery targets and performance indicators set in the service delivery and budget implementation plan as required by section 72(1)(a)(ii) of the MFMA.
43. The accounting officer of the municipality did not submit the results of the assessment on the performance of the municipality during the first half of the financial year to the mayor of the municipality, the National Treasury, and the provincial treasury as required by section 72(1)(b) of the MFMA.
44. The municipality did not implement a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players as required by sections 38, 39, 40 and 41 of the Municipal Systems Act read with regulations 7 and 8 of the Municipal Planning and Performance Management Regulations, 2001.

Budget

45. The municipality incurred expenditure in excess of the limits of the amounts provided for in the votes in the approved budget, in contravention of section 15 of the MFMA.

Annual financial statements and annual report

46. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of revenue identified by the auditors were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving an adverse audit opinion.

47. The annual performance report did not contain a comparison of the performance of the municipality and of each external service provider with development priorities, objectives and performance indicators set out in its integrated development plan as required by section 46 of the Municipal Systems Act.

48. The performance report for the financial year under review was not prepared as required by section 46 of the Municipal Systems Act and section 121(3)(c) of the MFMA.

Expenditure management

49. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system which recognised expenditure when it was incurred and accounted for creditors of the municipality, as required by section 65(2)(b) of the MFMA.

50. The accounting officer did not take reasonable steps to prevent unauthorised expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Revenue management

51. Interest was not charged on all arrears accounts as required by section 64(2)(g) of the MFMA.

52. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system which accounted for debtors as required by section 64(2)(e) of the MFMA.

Asset management

53. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system which accounts for the assets of the municipality as required by section 63(2)(a) of the MFMA.

INTERNAL CONTROL

54. In accordance with the PAA and in terms of General notice 1111 of 2010, issued in Government Gazette 33872 of 15 December 2010, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the basis for adverse opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

- The accounting officer does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.
- The accounting officer has not established an IT governance framework that supports and enables the business, delivers value and improves performance.

Financial and performance management

- The accounting officer did implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.
- The accounting officer did not implement controls over daily and monthly processing and reconciling of transactions.
- The municipality did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

- The accounting officer did not review and monitor compliance with applicable laws and regulations.
- The accounting officer did not design and implement control controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.

Governance

- The municipality did not implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored.
- The municipality does not have an adequately resourced internal audit unit that identifies internal control deficiencies and recommends corrective action effectively.
- The audit committee was not evaluated by council therefore the effectiveness of the audit committee to promote accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations could not be determined.

Auditor General
Polokwane

30 November 2011



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence